

Appendix C

Payor Vertical Integration

Payor ¹	Vertical Integration into Drug Purchasing ⁵⁴						
	US Covered Lives	MA Covered Lives	Mail Order Pharmacy	Specialty Pharmacy	Captive PBM	Staff Model HMO	Hospital Ownership
Aetna ²	19,029,000	160,211	X ^{24,25}	X ³⁴	X ^{24,25}	X ⁵⁰	
Anthem ^{3,22}	6,243,000	N/A		X ^{32,33}	X ^{25,27,28}	X ⁴⁶	
BCBS of Massachusetts ⁴	2,076,178	900,984				X ³¹	
BCBS of Minnesota ⁵	1,812,642	N/A			X ^{27,28}		
CIGNA ⁶	14,231,000	90,169	X ^{24,27,29}	X ^{21,34}	X ^{25,27}	X ^{29,30,42}	
Coventry ⁷	1,518,622	N/A				X ³⁸	
Fallon Community Health Plan ⁸	192,385	192,385				X ⁴⁸	
Harvard Pilgrim ⁹	1,191,594	637,493				X ^{43,53}	
Health Net ¹⁰	3,354,000	N/A			X ^{25,27}		
Health New England, Inc. ¹¹	75,437	75,437				X ⁵²	
Highmark ¹²	150,000	N/A		X ³²			
HIP New York ¹³	662,484	N/A				X ⁴⁹	
Humana ^{14,15}	3,652,800	N/A		X ²⁶	X ²⁵	X ^{14,45}	X ³⁷
John Deere Health ¹⁶	388,449	N/A				X ⁵¹	
Kaiser ¹⁷	8,100,000	N/A			X ^{27,28}	X ^{35,44}	X ³⁶
PacifiCare ^{18,21}	4,117,900	N/A			X ^{25,27}	X ⁴⁷	
United HealthCare ^{19,21}	15,717,997	74,116			X ^{25,40,41}	X ³⁹	
Wellpoint ^{20,22}	10,218,518	N/A	X ^{24,27}	X ³⁴	X ^{25,27,28}		
Subtotal	92,732,006	2,130,795					
Total ²³	180,385,780	2,889,689					
Percent of Total	51%	74%					

Notes

- Other payors outside of Massachusetts that are vertically integrated include BCBS of Michigan, BCBS of New Jersey, Capitol Health Plan, Group Health of Puget Sound, HAP of Michigan, Intermountain Health Care, and The Regence Group. "Health maintenance organizations listed- Michigan", Business Insurance, Dec. 1990 (referencing BCBS of Michigan); "Health maintenance organizations listed- New Jersey", Business Insurance, Dec. 1990 (referencing BCBS of New Jersey); "Horizon Blue Cross Blue Shield of New Jersey: Current and Historical Role in Providing Health Insurance Coverage in New Jersey", Rutgers Center for State Health Policy, February 2003 (referencing BCBS of New Jersey-aka Horizon BCBS); Denn, James, "CHP has a strong hold on managed health care", Times Union (Albany, NY), Feb. 26, 1995 (referencing Capitol Health Plan); Don Glickstein, "Group Health Cooperative of Puget Sound - A Short History", The Permanente Journal (referencing Group Health of Puget Sound); "Should You Take Managed Care Out of Integrated Delivery Systems", Cain Brothers, Vol. 40, Spring 2003 (referencing HAP of Michigan); Deposition of Eric Cannon, September 13, 2004, pp. 24, 43 (referencing IHC); "Meet Regence Rx," Regence Rx Website, available at <http://www.regencerx.com/meet/index.html> (referencing the Regence Group).
- Covered lives as of 2000 including commercial and Medicare managed care members. Aetna total covered lives numbers from Aetna's 2000 10-K, Massachusetts membership numbers from the Massachusetts Division of Insurance, Bureau of Managed Care.
- Covered lives as of 2000 including commercial and Medicare managed care members. Anthem covered lives numbers from Anthem's 2001 10-K.
- Covered lives as of 2000 including commercial and Medicare managed care members. BCBS of Massachusetts covered lives numbers from BCBS of Massachusetts 2000 Annual Report and from the Massachusetts Division of Insurance, Bureau of Managed Care.
- Covered lives as of 2000. BCBS of Minnesota covered lives numbers from BCBS of Minnesota 2004 Annual Financial Report.
- Covered lives as of 2000 including commercial and Medicare managed care members. CIGNA covered lives numbers from CIGNA 2000 Annual Statistical Supplement, Massachusetts membership numbers from the Massachusetts Division of Insurance, Bureau of Managed Care.

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7. Covered lives as of 2000 including commercial and Medicare managed care members. Coventry covered lives numbers from Coventry's 2000 Annual Report.
8. Covered lives as of 2000 including commercial and Medicare managed care members. Massachusetts Division of Insurance, Bureau of Managed Care.
9. Covered lives as of 2000 including commercial and Medicare managed care members. Harvard Pilgrim covered lives numbers from HMO Chains and Networks: Companies, <http://www.managedcaredigest.com/edigests/hm2000/hm2000c01s02g01.html>, As of 9/1999, "Senior Prescription Drug Coverage: The State of the Medigap Markets in Massachusetts and New Hampshire," The Massachusetts Health Policy Forum, Issue Brief, No. 7, 2000, p. 9 and the Massachusetts Division of Insurance, Bureau of Managed Care.
10. Covered lives as of 2000 including commercial and Medicare managed care members. Health Net's covered lives numbers from Health Net's 2000 Annual Report.
11. Covered lives as of 2000 including commercial and Medicare managed care members. Health New England Inc.'s covered lives numbers from the Massachusetts Division of Insurance, Bureau of Managed Care.
12. Covered lives as of 2000, Medicare Managed Care Only. Breisch, Sandra Lee, "Specialties Force Delay in Episodic Pay: Insurer Seeks to End Variations in Care; Physicians Don't want to Disincentivize Appropriate Care," The American Academy of Orthopedic Surgeons: Bulletin, Vol. 48, No. 4, August 2000.
13. Covered lives as of 2000, including commercial and Medicare managed care members. 2000 HIP Annual Report.
14. Humana and Michael Reese Health Plan, Inc., merged in 1991. Michael Reese was a staff model HMO in Illinois. Collins, Sara R., Bradford H. Gray, and Jack Hadley, "The For-Profit Conversion of Nonprofit Hospitals in the U.S. Health Care System: Eight Case Studies," The Commonwealth Fund, May 2001, p. 13; Whitmore, Julie, "How Michael Reese Boss Beats HMO Odds," Crains Chicago Business, Vol. 12, No. 7, February 13, 1989, Sec. 1, p. 17.
15. Covered lives as of 2000 including commercial and Medicare managed care members. Humana's covered lives numbers from Humana's 2000 10-K.
16. Covered lives as of 2000, including commercial and Medicare managed care members. 2000 Deere & Company 10-K405, TennCare Oversight Division, Managed Care Organization Annual Reports 1998-2001, John Deere Health Plan. Available at http://www.state.tn.us/commerce/tenncare/users/reports/archive/annualreports1998_2001.html.
17. Covered lives as of 2000. Kaiser's covered lives numbers from "Kaiser Permanente Continues to Strengthen Financial Base," News Release, October 30, 2000, available at http://ckp.kp.org/newsroom/national/archive/businesshealthplans/nat_001030_thirdqtr.html and Medicare HMO Data Report, <http://www.medicarehmo.com/mrepenpn.htm>.
18. Covered lives as of 2000 including commercial and Medicare managed care numbers. PacifiCare's covered lives numbers from PacifiCare's 2000 10-K.
19. Covered lives as of 2000 including commercial and Medicare managed care numbers. United Healthcare's covered lives numbers from United healthcare's 2000 10-K, Medicare Managed Care Lives come from "Medicare+Choice Enrollment by Healthcare Organization (Parent Company) Calendar year 2000," available at <http://www.medicarehmo.com/mrepenho.htm>, and Massachusetts covered lives from the Massachusetts Division of Insurance, Bureau of Managed Care.
20. Covered lives as of 2000 including commercial and Medicare managed care numbers. Well point's covered lives numbers from Well point's 2000 10-K.
21. United HealthCare and PacifiCare later merged. See, for example, "Public Company News," St. Paul Pioneer Press, December 25, 2005, p. 4D.
22. Anthem and Well point later merged. See, for example, "Major Insurance Mergers Realigned Industry Lineup in 2003," BestWire, December 31, 2003.
23. Covered lives as of 2000 including commercial and Medicare managed care members. National Covered Lives Numbers for Medicare managed care from "Medicare+Choice Enrollment by Healthcare Organization (Parent Company) Calendar year 2000," available at <http://www.medicarehmo.com/mrepenho.htm>; National Commercial Covered Lives from "Health, United States, 2004: with Chartbook on Trends in the Health of Americans," U.S. Department of Health and Human Services, Centers for Disease Control and Prevention, National Center for Health Statistics, 2004, available at <http://www.cdc.gov/nchs/data/hus/hus04.pdf>; Massachusetts Covered Lives include HMO group, HMO individual, HMO other, Medicare Risk, Medicare Cost, and PPO enrollment from the Massachusetts Division of Insurance for the year 2000.
24. "Mail-order Rates, Capabilities Foster Increased Competitiveness among PBMs," *Drug Cost Management Report*, September 12, 2003.
25. "Aetna Takes Mail-order In-House; Ends Contract with Express Scripts," *Drug Cost Management Report*, November 2002. "[T]he company's in-house PBM unit, Aetna Pharmacy Management, handles the bulk of other PBM functions for Aetna's members with drug coverage." "CIGNA HealthCare already performs most PBM functions in-house; it restructured and consolidated its PBM efforts as of July 2000. Anthem, PacifiCare and WellPoint are other large MCOs that already have fully functioning PBM units that also serve self-insured employers. Humana, Health Net and United HealthCare have all tried the in-house [PBM] route, and now contract with large outside PBMs for most functions." Aetna Pharmacy Management has 11.1 million covered lives.

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26. March, Astara. "Brown Bagging Chemotherapy Drugs," *Oncology Issues*, Vol. 16, No. 4, July/August 2001, pp. 23–28 at 28. Humana began its brown bagging system in 1994 and dispenses chemotherapy drugs from two pharmacies it operates in Tampa and Ft. Lauderdale, Florida.
27. "Health Plan Strategies for Pharmacy Benefit Management," *Managed Care Week*, January 13, 2003. Anthem subsidiary Anthem Prescription Management and WellPoint subsidiary WellPoint Pharmacy Management offer PBM services. BCBS of Minnesota is a part equity owner in an external PBM that has 1.5 million covered lives. CIGNA subsidiaries CIGNA Pharmacy Management (PBM) and CIGNA Tel-Drug (mail order) have 8.7 million covered lives. Health Net subsidiary Health Net Pharmaceutical Services (PBM) has 3.4 million covered lives. Kaiser Foundation Health Plan's internal PBM has 8.2 million covered lives. PacifiCare subsidiary Prescription Solutions, Inc. (PBM) has approximately 3 million covered lives.
28. "Blues-owned PBMs Primarily Serve Blues HMO Markets – Pharmacy Benefit Management," *Drug Cost Management Report*, August 2002. BCBS of Minnesota's PBM subsidiary is Prime Therapeutics.
29. Deposition of Thomas Greenebaum, January 14, 2005, pp. 11-12, 14. CIGNA has had a specialty pharmacy since May of 2002. CIGNA owns approximately 10 staff model pharmacies in Arizona.
30. Deposition of Jill Herbold, January 14, 2005, p. 63. Cigna owns one physician group in Phoenix Arizona.
31. Deposition of Michael T. Mulrey, January 5, 2006, pp. 12-13, 17. BCBSMA had both physician groups and pharmacies. BCBSMA did not disband its staff model HMOs until 1996 or 1997. See also, "Health Maintenance Organizations listed; Massachusetts," *Business Insurance*, December, 1988, p. 30; Duffy, Robert, *Led by Blues, HMOs Enjoyed Plentiful 1989*, *Boston Business Journal*, Vol. 10, No. 2, March 5, 1990, Sec. 1, p. 3; and Clements, Joe, *HMO Blue Reports a 10 Million Loss at Six-Month Mark*, *Boston Business Journal*, Vol. 12, No. 27, August 24, 1003, Sec. 1, p. 1.
32. "Highmark Forms New Specialty Pharmacy, Medmark, Inc., to buy Fishers SPS," *Drug Cost Management Report*, September 26, 2003.
33. "Specialty Pharmacy Market Offers Expansion Opportunity for PBMs," *Drug Cost Management Report*, September 12, 2003.
34. Carroll, John, "Plans Struggle for Control of Specialty Pharma Costs," *Managed Care*, September 2005. Operated a specialty pharmacy at least as early as 2004.
35. See, for example, Comments of Anthony Barrueta, Senior Counsel, Kaiser Foundation Health Plan Inc., Before the Federal Trade Commission/Department of Justice Joint Hearings: Health Care and Competition Law and Policy, *Pharmacy Benefit Management Companies (PBMs)*, June 26, 2003, p. 1. Kaiser is not technically a staff model HMO, Barrueta refers to it as a "non-profit integrated health care delivery system that purchases more than \$2.5 billion in prescription drugs annually for its 8.2 million members." Barrueta further says that "integrated delivery systems, like Kaiser Permanente, that have internalized the physician, pharmacist and payer role, historically effectively created competition among manufacturers."
36. Structure of Kaiser Permanente, available at http://members.kaiserpermanente.org/kpweb/structurekp/data...lapp/feature/123structurekp/Fast_facts_national_page2.html, accessed 2/15/2006.
37. "Humana History," Humana Website, available at <http://www.humana.com/corporatecomm/companyinfo/history.asp>. Humana Owned hospitals until 1993 when it spun off its hospital operations into Galen Health Care Inc., which later merged with Columbia/HCA.
38. "Coventry Corporation Names Rusty Hailey Vice President, Specialty Markets," *Business Wire*, June 23, 1994; "HealthCare USA Signs Strategic Merger Agreement with Coventry Corp.," *Business Wire*, February 6, 1995. "Coventry Corp. is one of the fastest growing HMOs in the country and for three consecutive years has been recognized by FORTUNE magazine as one of the fastest growing public companies in America. Health care is delivered to its 550,000 members through a combination staff model and IPA (Individual Practice Association)." "Health Maintenance Organizations Listed - Pennsylvania," *Business Insurance*, 1990, HMOs, p. 57. Coventry sold its staff-model HMO in 1997, deposition of J. Russell Hailey, Coventry Healthcare, Inc., August 4, 2004.
39. "United Healthcare Signs Definitive Agreement to Purchase Ramsay-HMO," PR Newswire, February 15, 1994. "United Healthcare Corporation (NYSE: UNH) and Ramsay-HMO, Inc. (NYSE: RMO) said today they have signed a definitive agreement under which United Healthcare will acquire Ramsay-HMO. Ramsay-HMO, which is based in Coral Gables, Fla., owns and operates a 172,000-member, predominantly staff-model, HMO serving the South Florida community in the Miami, Ft. Lauderdale and Palm Beach areas, including its recently announced entry into the Orlando market through the acquisition of Genesis Health Systems, Inc."
40. "About UnitedHealth Group: History & Innovation," UnitedHealth Group Website, available at <http://www.unitedhealthgroup.com/about/inn.htm>. In 1988 "United HealthCare incorporates the first pharmacy benefits management company, Diversified Pharmaceutical Services Inc."
41. United Sold its PBM in 1994. Ratner, Jonathan, *Pharmacy Benefit Managers - Early Results on Ventures with Drug Manufacturers*, GAO Reports, GAO/HEHS-96-45, November 9, 1995.
42. "Health Maintenance Organizations Listed - California, *Business Insurance*," December 18, 1991, 1991-1992 Managed Care Market Report - HMOs, p. 16.

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43. Stein, Charles, "Harvard Community, Pilgrim Eye Merger," Boston Globe, July 23, 1994, Metro-Region, p. 1. "Harvard Community, based in Brookline, was founded in 1969 as a staff model health maintenance organization. Harvard has its own salaried doctors who see patients at centers around Greater Boston. Over the years Harvard has branched out by buying group medical practices." See, also, Stein, Charles, "Top Quality HMOs not Rated the Most Popular," Boston Globe, April 2, 1996, Economy, p. 37; and 1998 Annual Report, A Year in the Life of the Health Care System, CSHSC, July 1999. "Harvard Vanguard Medical Associates, a 600-physician multi-specialty group practice, spins off from its long-time owner, the Harvard Pilgrim Health Plan."
44. Hall, Ken, "As HMOs Mature, Changes are on the Horizon," Business Dateline: Intecorp, Vol. 5, No. 3, February 7, 1986, Sec. 1, p. 15. "Kaiser Permanente Medical Care Program -- About 26,000 people in Connecticut and 27,000 in Westchester County belong to the Northeast Permanente Medical Group, the regional affiliate of this group model HMO. The group HMO is virtually indistinguishable from the staff model to members and employers. The difference is in the relationship the participating physicians have with the HMO itself. Kaiser's physicians are not employees of the health plan, as they would be with a staff model HMO. Rather, they are a private corporation unto themselves, contractually bound to Kaiser to provide medical care for members of the plan. There are about 40 physicians in the Northeast Permanente Medical Group. There are an additional 250 "physician-specialist-consultants" who are contracted to provide occasional services when necessary. The Group has about 1,100 employees."
45. "Humana, Community Health Plan Sign Definitive Agreement for Humana's Acquisition of Ohio HMO," PR Newswire, November 8, 1990, Financial News.
46. "Health Maintenance Organizations Listed - Connecticut," Business Insurance, December 1990, HMOs, p. 25. Characterizes Community Health Care Plan as a staff model HMO affiliated with BCBS of Connecticut. BCBS of Connecticut merged with Anthem in August 1997, Earls, Bill, "Blue Cross Merger Approved: What does it mean, Middlesex Magazine & Business Review," Vol. 4, No. 9, September 1997, p. 38.
47. Prince, Michael, "Competition Driving Staff Model HMOs to Evolve," Business Insurance, August 5, 1996, News, p.6. Characterizes FHP International Corp. as having a staff model HMO from 1961 until about 1996. PacifiCare and FHP operations were merged in 1997, "PacifiCare: To Integrate FHP Operations in California," American Health Line, August 4, 1997, Managed Care Monitor.
48. See, for example, Pappas, Christina L., "Prescription for a Competitive HMO Market," Business Worcester, Vol. 7, No. 2, March 21, 1988; Phelps, Richard, "Fallon Clinic, Primary Care Physicians Merge, Business Worcester, Vol. 8, No. 11, July 24, 1989, Sec. 1, p. 1.; and Stein, Charles, "Top Quality HMOs not Rated the Most Popular," Boston Globe, April 2, 1996, Economy, p. 37. While Fallon Community Health Plan is not technically considered staff model, the Fallon Clinic operates the Fallon Community Health Plan.
49. Robinson, James C., "The Future of Managed Care Organization," Health Affairs, Vol. 18, March/April 1999, pp. 7-24.
50. See, for example, Levick, Diane, "Insurers Investing in Medical Practices," The Hartford Courant, August 29, 1993, Sec. A, p. 1; Viles, Peter, "Part II: Managed Care is Industry's Answer to Health Care Costs," The Associated Press, January 22, 1991; "Medcenters of North Dakota, Heart of America HMOs to Explore Combining Operations," Southwest Newswire, April 27, 1987; PR Newswire, Minneapolis, January 24, 1985; "Medcenters of North Dakota and Capcare Merge," Southwest Newswire, March 6, 1987. Aetna sold its physician practices to Medpartners in 1997, Gaynor, Martin and Deborah Haas-Wilson, "The Blessing and the Curse of Managed Care-Vertical Relations in Health Care Markets," Paper Prepared for the AEI Conference "Managed Care and Changing Health Care Markets," Washington D.C. April 10, 1997, July 16, 1998, p. 2.
51. Deposition of Carol Sidwell (John Deere Health), September 17, 2004, pp. 40-46. John Deere Health had a staff model HMO from approximately 1993-1999.
52. See, for example, "Report: Baystate not Breaking Antitrust Laws," The Associated Press State & Local Wire, October 3, 2001.
53. Deposition of James Kenney, September 20, 2004, pp. 7-11. Harvard Pilgrim owned physician clinics and pharmacies. Harvard Pilgrim purchased drugs either directly or from a wholesaler. The Staff Model HMO became a group model practice "a few years ago". On Pages 12-13 of his deposition, James Kenney says that Harvard Pilgrim acquired brand name drugs from manufacturers at 2-50% off WAC, while they purchased generic drugs at 50-80% off WAC.
54. This exhibit displays information on payors who were involved in drug purchasing for which enrollment information is readily available.

N/A These payors do not cover any lives in Massachusetts.